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# **Social innovation, social enterprise, and local public services: Undertaking transformation?**

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## **Abstract**

This article discusses some of the challenges encountered in embedding effective and sustainable social enterprise and social innovation within established political institutional systems to deliver local welfare services. It draws upon evidence analyzing social innovation and social enterprise in Scotland to contribute to the debate over whether social innovations and social enterprises are able to meet expectations in addressing the significant challenges faced by welfare systems. The article clarifies the meaning of both these contested concepts and explains how social innovation and social enterprise relate to similar ideas in social and public policy. The evidence suggests that actually operating social enterprises and social innovations do not embrace the image of them promoted by enthusiasts as either “entrepreneurial” or “innovative”. Furthermore, they bring distinctive challenges in delivering local welfare services, including potential tensions or rivalry with existing public agencies. The article suggests that social enterprises and social innovations are not themselves instigators nor catalysts for systemic change, but that their impact is constrained by structural conditions and institutional factors beyond their control.

## **Keywords**

governance, social enterprise, social innovation, welfare reform

## 1 INTRODUCTION

The concept of “social innovation”, as a “distinctive and effective response to address unmet needs motivated by a social purpose which enhances social assets and capabilities” (Author A and C, 2014, p. 471) has become prominent in discussions of social policy reform across the world. Many commentators and policymakers hope that such imaginative solutions will help revitalize welfare services and address chronic and emerging social problems. The current interest in social innovation reflects a concern that existing welfare models are in crisis and that new responses are necessary to deal with the “compelling social challenges” confronting governments (Caulier-Grice, Davies, Patrick, & Norman, 2012, p. 5). Some critics suggest that established welfare models are “increasingly suffering from the laws of diminishing returns” and “ill-equipped to deal with emerging social needs” (Wallace, 2013, p. 4). To replace them “We are desperately in need of a different set of ideas” (Leadbetter, 2012, p. 11). Social innovation and related - but distinct - ideas of “social enterprise” (i.e., an “alternative type of business strategy drawing upon elements of entrepreneurship and solidarity from the heritage of the early cooperative movement”; Hulgård, 2014, p. 66) are hoped by some to offer the promise of new, more flexible, alternatives to these allegedly “failed” approaches (Norman, et al., 2013). Some enthusiasts go further and hope that social innovations might become citizens' movements and the basis for renewed civic engagement to counter disenchantment with conventional policies and political systems (Bunt & Harris, 2010).

This article examines the capacity of social innovation and social enterprise to meet expectations in addressing the significant challenges currently faced by welfare systems. In particular, it looks at how social innovations and enterprises relate to existing local welfare governance systems. It draws upon evidence analyzing the experience of social innovation

and social enterprise at the local level in Scotland - a country whose leading politicians claim to provide “the most supportive environment in the world for social enterprise” and to have built a vibrant social innovation culture (Author D et al. 2015). This evidence serves as a critical case, providing insights into the capability and capacity of social innovations and enterprises to assume a greater or more effective role in delivering welfare services where existing provision is already well developed and embedded.

Social innovation and enterprise introduce a new dimension and impetus to familiar ideas of the mixed economy of welfare, with varying implications in different welfare regimes (Evers, 1995; Powell, 2007). Social innovation and social enterprise are part of a dual shift in responsibility for key forms of welfare provision - with greater responsibility being transferred simultaneously both from central to sub-national governments and also to nonstate providers. This tendency is particularly evident in the United Kingdom, where increased welfare powers and responsibilities are being devolved from central government to national executives and local government (Scotland Office, 2016). This devolution of welfare responsibilities provides local political agents with opportunities to promote distinctive political identities and forms of provision. This simultaneously challenges the national identities upon which the development of welfare states in the 19th and 20th centuries both depended and contributed to (Viebrock, 2009). However, this development has coincided with a sustained period of expenditure restraint and cuts to many local public welfare services. In this context, social innovation and enterprise may pose difficulties - or even direct challenges - to the authorities and agencies charged with these new responsibilities.

While disruption and subversion of existing practice may produce longer-term benefits (although that remains to be proven), the “creative destruction” of innovation poses immediate challenges (Nicholls & Murdock 2012; Schumpeter, 1976). The simultaneously threatening and potentially beneficial character of social innovation and enterprise is one source of controversy (Ruddat & Schönauer, 2014). Another is whether the claims made about the transformational impact of social innovation are borne out by evidence (Chalmers, 2012, p. 18). Consequently, this article examines the impact of social innovations and enterprises in a devolved, multi-level welfare governance system and explores whether they collaborate effectively in inter-sectoral partnerships.

The following section clarifies and explores the contested nature of social innovation and how it relates to the concept of social enterprise. The subsequent section highlights some of the implications for social policy theory and debates raised by social innovation and social enterprise. Following a brief outline of the research upon which the analysis is based and the nature of the policy environment in Scotland, the article discusses some of the research findings relevant to local welfare provision. The article concludes by suggesting that, to the extent that they are genuinely innovative, social enterprises and social innovations generate tensions with devolved local public welfare institutions. However, the evidence also suggests that social enterprises and social innovations may be less of a threat and have less transformational impact than both their advocates and critics suggest. We conclude by outlining some of the implications of this evidence for the role of social innovation and social enterprise for social policy beyond Scotland.

## **2 SOCIAL INNOVATION AND SOCIAL ENTERPRISE**

The Bureau of European Policy Advisers (2010, p. 33) observed that “Definitions of social innovation abound and a casual observer can quickly become entangled in a debate over meaning and nuance”. Some see advantages to this vagueness: that it keeps the field open to a variety of players and stimulates experimentation and debate rather than compelling conformity to prescribed forms (Caulier-Grice et al., 2012, p. 4). Indeterminacy can also be politically convenient as it also allows social innovation to be promoted (and co-opted) for a variety of ends (Teasdale, 2011; Author D, 2013). Nevertheless, some conceptual clarity is required to advance analysis (Ayob, Teasdale, & Fagan, 2016). To clarify the meaning of social innovation, it helps to discuss each component in turn, i.e., consider the nature of “innovation” and what makes innovation “social”.

In business, innovation simply means “doing something new and better” (Sisson, 2011, p. 9). This can refer to new or significantly improved products, processes, marketing strategies, operational processes or organizational forms, or some combination of these (Crowley, 2011). Schumpeter (1976, p. 132) argued that entrepreneurial innovation was the defining feature of capitalism and the source of its dynamism. Innovations are not necessarily entirely novel. Recombinant innovation involves distinctive syntheses of already existing practices or ideas, or the application of established processes to new issues or settings. However, although innovations need not be completely new they involve more than merely incremental developments (Lynn, 1997). Innovations involve a step-change beyond previous practice, which entails a “fundamental transformation” or paradigm shift (Hartley, 2014, p. 227). Innovation does not mean simply doing the same thing better, but doing things differently or doing different things.

What distinguishes social from business innovation is that the primary imperative is not profit *per se*. The conception of social innovation which has come to underpin recent European Commission policy defines it as “new ideas (products, services, and models) that simultaneously meet social needs (more effectively than alternatives) and create new social relationships or collaborations” (Bureau of European Policy Advisers, 2010, p. 24). Social innovations can be local projects, reform programs, new legislation or even social movements (Phills, Deiglmeier, & Miller, 2008). They can focus at the micro level on individuals or particular groups, at the meso level on organizations or communities, or address macro-social or supranational policies. Spatially, they can operate in neighborhoods; regions, or at the national or even across international borders (Nicholls & Murdock, 2012, p. 7). Several definitions insist that social innovations must have an impact and meet social needs or address environmental challenges more effectively than existing responses (Norman et al., 2013, p. 5). Some distinguish between “invention” - which is the generation of new ideas - and genuine “innovation”, which is their practical application and dissemination (Casebourne 2013, p. 20; Conger, 1996).

It is also suggested that social innovations not only effectively address unmet needs, but do so in an inclusive and empowering way (Social Innovation Exchange, 2010, p. 18) - developing the assets or capabilities of those they are intended to benefit. As expressed by the European Union Commissioner for Employment, Social Affairs and Inclusion: social innovation is not only about finding alternative solutions to gaps in the market and public sector, but it is about finding the best ways to empower people - especially deprived groups - through their active involvement in the innovative process (quoted in Borzaga & Bodini, 2012, p. 5)

The “blurred frontiers” between the concepts of social innovation and social enterprise is a feature of the literature, and the terms are sometimes used synonymously (Social Innovation Exchange 2010, p. 15). This also applies to the term “social entrepreneurship”, which is sometimes used interchangeably with “social enterprise”, particularly in America (Defourny & Nyssens, 2010, p. 42). The role of the social enterprise - broadly speaking, an organization that sells goods and services for an explicit social mission, rather than the maximization of investor or shareholder returns - as a tool of public policy is well documented (Hunter, 2009). The malleability of all three concepts is part of their appeal across political and international frontiers. How each concept is interpreted and applied in practice reflects varying local political and ideological contexts (Kerlin, 2013); a particularly influential factor shaping such variation being the level of state support (Hoogendoorn, 2016).

It is frequently declared that innovation is a defining feature of social enterprise (Nicholls, 2006), “There can be no doubt that to achieve their mission, social enterprises must continually challenge the current stable 'social equilibriums' throughout the world that are impeding social innovation” (Goldstein, Hazy, & Silberstang, 2010, p. 102). However, several prominent definitions of social enterprise do not explicitly refer to innovation (e.g., Defourny & Nyssens, 2012; DTI, 2002; SENSOT, 2010); and the degree of actual innovation within social enterprises is questionable (Osborne & Chew, 2008). Consequently, it is helpful to distinguish between social enterprise and social innovation, since not all social enterprises are social innovations, and not all social innovation entails enterprise.

### **3 SOCIAL POLICY IMPLICATIONS OF SOCIAL INNOVATION AND SOCIAL ENTERPRISE**



Social innovation and social enterprise relate to several core social policy concerns and debates. These include: issues of alleged market and public policy failure; the efficiency and cost-effectiveness of alternative delivery mechanisms; the accountability of non-state organizations providing welfare services; and the juridical rights and citizenship entitlements of service users. This article focuses on this issue of the relational politics of social enterprise and social innovation in local welfare service development and delivery. Social innovation raises particularly interesting questions about effective local governance systems and urban politics; notably, the increasing prominence of hybrid organizations and the politics of intersectoral partnerships among institutions with different resources and competing authority claims (Billis, 2010; Doherty, Haugh, & Lyon, 2014). Indeed, social innovations and enterprises may be regarded ideal typical hybrid organizations, which delineate the distinctive challenges experienced and complexities poses by combining varied organizational forms (Battilana & Lee, 2014).

A common motivation or justification for the increasing role of social innovations and social enterprises in welfare provision is alleged market failure. A classic example of this is financial exclusion, which has been the inspiration for some of the first, most prominent and lauded social innovations and enterprises, including credit unions, financial mutuals and cooperatives, microfinance initiatives in the global south, and various forms of community development financial institution. However, enthusiasm for social enterprise and social innovation is also prompted by concerns about “the 'failure' of the modern welfare state”, and the need for imaginative responses to funding and provision gaps (Caulier-Grice et al., 2012, p. 5). A common argument within much of the literature on social innovation and

social enterprise from a business perspective is that “wicked problems”, such as the health and social care challenges posed by aging populations, cannot be addressed by “bureaucratic” governments nor conventional charities (Yunus, 2009). Rather, it is argued, partnerships between businesses, civil society organizations and hybrid organizations should develop new solutions which are believed to be more effective, efficient, sustainable, and/or socially just (Phills et al., 2008). For example, Leadbeater argues that the limitations of conventional public welfare are manifest and “that we know [it] is ill-equipped to deal with modern social problems it has to confront...Britain needs a long wave of social innovation to develop a new philosophy, practice and organisation of welfare” (Leadbeater, 1997, p. 1).

These observations and proposals raise several questions. One set of questions concerns the reaction of existing public sector welfare institutions to the challenge of working with social innovations and social enterprises. The very existence of, or perceived need for, innovation is an implicit critique of the presumed deficiencies of existing provision. If social innovations emerge, or are cultivated in response to perceived problems with existing public provision, how do public service providers respond to this implicit allegation of neglect or failure? Disruption is an essential feature of social innovation, “innovations change what gets produced, how these new products and services get distributed, how the burden of producing services is borne, and what happens to the material conditions of society” (Moore & Hartley, 2008, p. 14). The disruptive character of innovation challenges continuity and may generate conflict rather than create harmony with existing institutions and systems (INNOSERV, 2014; Utting, 2013). Some commentators identify “Tensions between community initiatives and the central state”, and interpret governance reforms as “a

criticism of central state welfarism as authoritarian” (Moulaert, et al., 2005, p. 1971).

Existing local welfare agents and established management cultures may therefore regard social innovations and enterprises as an irritant rather than an emollient - a threat and usurpation of power to be resisted or neutralized (Howaldt & Schwarz, 2010).

A second question raised by social innovation and social enterprise concerns their impact and effectiveness. One criticism is that enthusiasm for social innovation and social enterprise is not based on sufficient evidence-based assessment of their effects, but reflects an ideological attachment to non-state responses to social problems (Dart, 2004; McHugh et al. 2013). However, empirical evidence on the operation and impact of social innovation and social enterprises is now being accumulated, and answers are emerging to some of the questions they pose. The evidence presented in this article addresses some of these questions by examining the challenges raised in working with social innovations and social enterprises in Scotland as a critical case and an experiment in both vertical and horizontal governance reform. Lessons from this experience are relevant to all welfare regimes currently reforming local governance systems and experimenting with social innovation and social enterprise to reform how social policies are developed and delivered.

#### **4 SOCIAL INNOVATION AND SOCIAL ENTERPRISE IN SCOTLAND: A CRITICAL CASE**

There are several reasons for using data from Scotland as a critical case to analyze the relationship between social innovation, social enterprise and social policy. First, there is a long tradition of social enterprise and social innovation in Scotland: the first mutual savings bank and friendly society was founded in Scotland in 1810 (Neal, 2015), the Scottish

Government has claimed that mutual life assurance among lower income communities was invented in Scotland (Swinney, 2013), and Robert Owen managed the New Lanark mill as a co-operative settlement 40 km southeast of Glasgow in 1800.

A second justification for investigating social innovation and enterprise in Scotland is the scale of the sector: there are an estimated 5,199 social enterprises in Scotland, a large number for a population of roughly 5 million. An average of 226 new social enterprises have been formed in Scotland annually over the last five years (GSEN and Social Value Lab, 2015).

A third reason for regarding Scotland as a critical case is that successive governments claim to have invested in and cultivated a distinctive social enterprise infrastructure. For example, the Scottish Government's former principal minister for economic policy claimed that: Scotland has been recognised as the best place in the world to start a social enterprise and there is increasing international interest in what some are calling the "Scottish Model" ...an enterprising third sector is a vital partner in our economy, in civic society and in the creation of a fairer and more inclusive Scotland. (*The Scotsman*, 2014)

Among the national organizations providing support to the social enterprise and innovation sector in Scotland are Social Enterprise Scotland, the Social Entrepreneurs Network for Scotland (SENSCOT), the Social Enterprise Academy, Social Firms Scotland, the Development Trust Association for Scotland, the Community Business Network for Scotland, Community Enterprise in Scotland, and Co-operative Development Scotland. Irrespective of whether or not these organizations are effective (or even necessary), their number indicates the scale of financial and political investment in the sector in Scotland.

Part of the attraction of social innovation and social enterprise to the Scottish National Party

Government in Scotland is that it offers an opportunity to distinguish itself from the UK Government by claiming to support a supposedly distinctive “Scottish” social innovation and enterprise ethos (Scottish Government, 2008). This has led it and other stakeholders in Scotland to distance themselves from what they portray as the more commercialized and liberal approach to social innovation and social enterprise, which they claim has been favoured by successive UK Governments (Hazenbergh, Bajwa-Patel, Roy, Mazzei, & Baglioni, 2016). This self-representation of Scottish policy as a contrast to English market liberalism has been contested by several social policy commentators, and merits further critical analysis (Mooney & Scott, 2012).

A final reason for regarding Scotland as a critical case to study the impact of social innovation and social enterprise in local welfare systems is that many aspects of social innovation and social enterprise policy are devolved within the United Kingdom's complex division of social policy powers. The devolution within the United Kingdom of further welfare responsibilities during a period of sustained and significant retrenchment offers a particularly interesting context to analyze the local politics of social innovation and social enterprise. Such conditions of simultaneous resource constraint and governance reform highlight the character and interests of different stakeholders and throw into relief the culture of inter-organizational relationships: as institutions vie to assert their respective roles and jockey to establish their political legitimacy. These conditions therefore test the receptiveness to social innovation and enterprises among local governance systems within an ostensibly supportive polity at a critical juncture, and reveal the institutional politics of welfare reform.

The evidence presented here is therefore relevant to understand the experience of extending the role of social enterprise and innovation in welfare policy beyond the particular case of Scotland.

## **5 RESEARCH METHODS AND DATA ANALYSIS**

This article draws upon findings from a mixed method research project,<sup>1</sup> the aims of which were to understand the conditions under which social innovations and social enterprises originate and develop, and assess whether they offer a sustainable contribution to solving social challenges. The Scottish case study involved a review of the literature and policy background on social enterprise and social innovation in Scotland (taking into account relevant UK and EU factors); interviews with 18 stakeholders from the third, public and private sectors, experts from the academic community; and two focus groups with practitioners and key stakeholders. The first of these was held in Glasgow and involved six

Participants were purposively sampled to reflect the range of ages, sizes, economic sector, and geographic diversity of social enterprises in the city. To understand whether and how operating procedures and/or institutional relationships change over time (and what triggered any such changes), organizations at different stages of development were selected. An equal number of younger (i.e., operating for less than five years) and more established organizations (in existence for longer than five years) were recruited. Focus group participants were also selected on the basis of their “entrepreneurial mode”, to include environmentally responsible, socially responsible, non-profit, state or local authority-owned enterprises (Gibson-Graham, 2006). Organizations also operated in a variety of sectors, including recycling and refurbishment, housing, and education and

training/skills development to enhance employment opportunities. Two organizations served communities in the north and west of the city, while the others had a city-wide or regional scope. The second focus group was held in Edinburgh and comprised five representatives from a range of national social innovation and social enterprise infrastructure and support organizations. These were also purposively sampled, to reflect the heterogeneity of the Scottish social enterprise sector, and included representatives from the Development Trust Association for Scotland, Social Enterprise Scotland, the Social Enterprise Academy, Co-operative Development Scotland, and Forth Sector.

All interviews and focus group discussions were recorded, transcribed “intelligent verbatim” and after the transcriptions were checked for accuracy, manually thematically coded in NVivo. Themes emerged through iterative “abductive” analysis (Peirce, 1932), which involves “moving backward and forward among empirical data, research literature, and emergent theory” (Dey & Teasdale, 2013, p. 255). A number of key themes emerged through iterative “abductive” analysis (Peirce, 1932). These included how organizations performed and presented themselves as social innovations and enterprises, particularly to public funders.

A second theme was the barriers which participants identified to developing their capacity. Third, the disjunction between the rhetoric of national policy and reality of local practice was evident. The research team jointly discussed and coded the data, debating interpretations and clarifying shared understandings, agreeing on new codes to incorporate emerging themes, and identifying both recurring issues and anomalies. This process of “moving backward and forward among empirical data, research literature, and emergent theory” (Dey & Teasdale, 2013, p. 255) is known as “systematic combining”, and allows

emerging themes to be understood in relation to the existing literature (Dubois & Gadde, 2002). Some of the key findings identified by this process are discussed in the next section.

## **6 RESEARCH FINDINGS**

### **6.1 The character of social enterprises and innovation**

There is a substantial economics literature on entrepreneurialism, dating back to Adam Smith and Cantillon, which has been the basis for belief in the dynamism and “can-do” business orientation of social innovations and social enterprises. In much of this literature “social change is portrayed as having been driven by a very small number of heroic, energetic and impatient individuals” (Social Innovation Exchange, 2010, p. 19). This approach draws upon Schumpeter's (1976, p. 132) characterization of the exceptional qualities of entrepreneurs, whom, he argued, possess “aptitudes that are present in only a small fraction of the population”; in particular, imagination, confidence, and the resilience to overcome resistance to their vision. This view of social entrepreneurship “focuses on the personal qualities of people who start new organizations, and it celebrates traits like boldness, accountability, resourcefulness, ambition, persistence, and unreasonableness” (Phills et al., 2008).

However, our research found that representatives of the sector in Scotland distanced themselves from such a portrayal. Participants were reluctant to regard describe themselves as social “entrepreneurs” and disavowed being either personally entrepreneurial or especially innovative, although many did express pride in being part of enterprising *organizations*. As one of our Glasgow focus group participants noted:



When people talk about social enterprise or talk about social entrepreneurs, they just focus on the individuals. The work and the people that we meet is not about an individual doing any one thing, it's about people collectively coming together to affect change in their community for the wider benefit.

In the Scottish context there is a marked wariness towards the term “entrepreneur”. This is interpreted as emphasizing a business orientation, characteristic of the North American discourse. Previous research has found a similar distaste for the image of social innovation and social enterprise as the work of heroic leaders in parts of England (Seanor & Meaton, 2007). This reflects the tendency of many practitioners to eschew what they regard as excessively individualistic accounts of social innovation and social enterprise (Froggett & Chamberlayne, 2004).

Many of those with whom we spoke preferred stability over risky innovation and were members of rather conservative organizations, not least because few have the resources to survive failed ventures. In many cases the “innovation” they undertook was compelled, and some organizations have become “enterprises” by necessity rather than preference. As one of our Edinburgh focus group participants explained:

you have to come up with alternatives - where does the money come from if your funding has been cut? So you're in a Catch 22 in a way - you need to be sustainable as far as possible but if the money isn't there, then sometimes you don't have an option but to be social enterprises. Some people are forced into it sometimes.

Some commentators argue that the supposed innovation of social innovation and social enterprise is largely performative (Teasdale, 2011). Their dependence upon winning public contracts or maintaining state support obliges social enterprises and other third sector

organizations to “tick the boxes” of those who control access to resources, so they learn to “play the game” and “use the language and fit with the priorities favoured by funders” (Lindsay, Osborne, & Bond, 2013, p. 199). Consequently, they may present themselves as being more innovative than they really are, or would have inclination to be in different circumstances (Dey & Teasdale, 2016). In such cases their most important enterprising skills may be political and presentational rather than business innovation (Steiner & Teasdale, 2016).

Another supposed attribute of social innovation and social enterprise challenged by our research is the scale of their ambition and likely impact. There appears to be a difference of opinion between some of the organizations representing the sector and social enterprises themselves regarding capacity for growth and sustainability. Representative and umbrella organizations are particularly keen to encourage social enterprises to “scale up” and “think bigger” and become sustainable without relying on public funding or subsidy. Some national organizations were concerned that parts of the sector were opposed to expansion and financial independence in principle. As one such representative commented:

At a meeting of the social entrepreneurs themselves in their network, somebody turned round and said “I don't think they [a particular organization] should be classed as a social enterprise anymore because they are too big”. That really worried me because that is a mind-set within that community that social enterprise is about being small and doing something in your local community.

This apparent conservatism is interpreted more positively by the actors themselves. They explained that their aspiration is sustainability not growth *per se*; they are pragmatically concerned with survival rather than expansion. They reject the suggestion that their

disinclination to expand or franchise indicates a lack of ambition; as one of our Edinburgh focus group participants explained:

A real bugbear now is that there's always this pressure to grow your social enterprise. Well hang on a minute, particularly from a Development Trust perspective, the *raison d'être* for the organisation in the first place was to do something within a geographical limit. So to grow, in a sense of economic growth, and to get bigger is not something necessarily what they're about. They might want to diversify and have a greater diversity of what they do, which is growth...We have this idea that growth and getting bigger are the ones that are held up [sic]: "look at this - you need to look at how you can grow". Well that's not always what everybody wants to do.

Social enterprises and innovations were also very conscious of their precariousness; as one interviewee explained, "They are often very dependent on an individual or couple of individuals. So if somebody leaves, retires, whatever happens, what happens to it after that?".

Several of those we interviewed believed that, as predicted by organizational theories of isomorphism, larger, more established social enterprises assume some of the characteristics of public bureaucracies with vested interests and a tendency to build "empires" to survive.

An exchange between two participants in our Glasgow focus group expressed this:

P1: It's a critical tipping point when a social enterprise gets to that point when it becomes one that has to sustain itself, it gets to that kind of whole infrastructure of a directive management.

P2: Yes, they are in business to keep themselves in business. That kind loses sight of the priority.

It was therefore perceived that the larger, more established and ostensibly more "successful" that social enterprises and social innovations become, the more self-protective

they need to be to sustain themselves. Such self-preservation may potentially be at the expense of “competitors” in the sector or to the neglect of their core social mission. A vital competitive context for social enterprise and social innovations is for scarce public resources (in the form of grants and contracts) and government patronage rather than the conventional paying customers of mainstream markets. Consequently, some part of their innovative and entrepreneurial energies are devoted to political maneuvering and discursive positioning, rather than developing new services and products for customers.

## **6.2 Social innovation and local governance**

Most of those who participated in our research referred to what one interviewee described as “a very healthy infrastructure” and the benefits of having a “listening government” in Scotland. Nevertheless, there was also a widespread view that national public commitments to support social innovation and social enterprise in Scotland were not reflected in local practice. The Scottish sector echoed the complaint voiced elsewhere in the United Kingdom that public sector commissioning and procurement processes inhibit social innovation by disadvantaging smaller bidders (Social Innovation Exchange, 2010, p. 2). To address this, the UK Government's Public Services (Social Value) Act 2012 requires public bodies in England (and some in Wales) to consider how procurement could contribute to local improvement. Although in principle this could increase opportunities for social innovations and social enterprises, the sector has so far been “equivocal” about the likely impact of the Act (Social Enterprise UK, 2013, p. 590). There has been a similarly lukewarm response within the Scottish sector to the Procurement Reform (Scotland) Act 2014, which is intended to enable similar reforms.

A more significant structural disjuncture between political rhetoric and reality which emerged from our research was the reported contrast between the support provided by the national Scottish Government and local authority practice. As one of our Edinburgh focus group participants explained:

It needs a culture change at all local administration levels, because what you have - certainly from a community regeneration perspective - is you have an open door that you're pushing at national policy level that is not filtering down to local authority level...And what you find is a very supportive national policy, funding, all that kinds of stuff everybody is talking about, but you do not see that at local authority level.

One impediment inhibiting more effective working relationships between social innovations, social enterprises and local authorities is that local government institutions defend and maintain established patterns of policy delivery (Moulaert et al., 2005). Reflecting this, several research participants felt that many local authorities in Scotland engaged with the sector often out of necessity - due to resource constraints and as a result of expenditure cuts. The following exchange in Edinburgh our focus groups illustrates this:

P1: I worked for [X] Council for years and I spoke to them goodness knows how long ago about externalising some of their services and thinking about using social enterprise type models for doing it. They are now getting round to it but it's been very reluctant and it's because they're now forced into it, not because they really want to do it. It's because they're running out of resources to do what they've been doing before so they're casting around looking for ways to do it, or continuing to do something that's not going to cost them.

P4: The fact that they've have been forced in to it means they're not really doing it very well.

Social innovation and enterprise may have been accepted without much enthusiasm by some Scottish local authorities, as "Innovation is something which alters the status quo, and

supplants or modifies existing ways of planning or providing public services” (Hartley, 2014, p. 228). Several of our research participants believed that local authorities regarded social innovation and social enterprise as potential rivals and alternative sources of local legitimacy.

The view was frequently expressed that local authorities were concerned about social enterprises becoming too successful; as one of our Edinburgh focus group participants remarked, “what I find with local authorities is that when something starts to grow beyond where they can control it, that's when it gets really difficult for them”.

This introduces the issue of vested interests and political jockeying involved in inter-sectoral social policies (Greenhalgh, 2009). These issues were very alive to our focus group participants, who claimed that “What you have at local authority level are still people that are blocking it [the social enterprise/innovation sector] because of the power issue. There's a perception about giving over power, or who's actually in control”. Another participant in the same focus group expanded upon this view:

I think councils are, maybe in Scotland more than anywhere else, they're very worried about letting things go, not always because they're worried it will fail but often because they're worried it'll succeed, which is a real stupid reason, but that seems to be their defence.

However, from a local authority perspective, this is rational rather than “stupid” position, as it reflects their distinctive responsibilities and a legitimate protection of their jurisdiction. Some of those in the social enterprise and social sector took a different interpretation: in the opinion of another Glasgow focus group participant, “The public sector protects its interests as savagely and brutally as the private”. Indeed, one Scottish local authority was

accused of “pulling funding” from social innovations and third sector organizations they regarded as uncompliant:

Because they don't like people coming - they definitely don't want people to be empowered, at the end of the day they don't. You get so much power and they come and shut you down, I have seen it happen to so many charities.

## **7 DISCUSSION**

Several aspects of this analysis are relevant beyond the Scottish case and relate to wider debates in social theory. First is the issue of impact. There is an apparent disparity between the investment in and returns from social innovation and social enterprise in Scotland. The significant political capital devoted to the sector has not yet been matched by evidence of corresponding outcomes nor innovative forms of service delivery, at least not on the scale required to transform welfare services. Larger social innovations and social enterprises perform familiar roles - delivering public service contracts - while smaller and potentially more inventive organizations lack the capacity and scale for genuine transformational change.

Even supporters of the sector in Scotland acknowledge that significant impact should be regarded as a longer-term aspiration:

I think, irrespective of the progress the social enterprise community has made in the last ten years it will take another ten, fifteen years for organisations really to properly establish themselves. Because at the moment...the situation we have is that 80% of the organisations at least are small organisations - they don't have the resources, they don't always have the capacity.

This finding highlights the curiously contrasting perspectives between those local authorities which regard social innovation and social enterprise as potential threats to their legitimacy and power and the sector itself, which does not share the ambitions for growth and impact voiced by their more enthusiastic advocates, including the Scottish Government. Far from seeking to encroach on local authorities' responsibilities, social innovations and social enterprises do not appear sufficiently confident nor ambitious to accept the level of expectation (or hype) they attract.

This relates to the second theme of local governance and the institutional politics of welfare - the resistance which social innovations and social enterprise have generated. The word "entrepreneur" derives from the French for "undertaker" - in the comparatively innocent sense of someone who commits to a task, rather than the more somber idea of a funeral director. Nevertheless, this word does not necessarily have positive connotations in English. As Schumpeter noted, entrepreneurs are unusual in energetically promoting disruptive innovation; most people resist change. Innovation and inventiveness can be regarded as intrusive and unwelcome by established institutions. Even if the dynamism of social innovations social enterprises is exaggerated, nevertheless their entry into local politics and service delivery disrupts the status quo and disturbs vested interests. As Conger (1996, p. 3) argues, "Once an organization is invented it seldom concerns itself with inventing new ways to deliver its service or objectives. Instead, it becomes consumed with developing methods of self-maintenance and extension". The evidence from the Scottish case suggests that, even where there is a manifest political commitment to community empowerment and an extensive infrastructure supporting social enterprises and



innovations, the impact of such efforts are shaped and constrained by institutional resistance. How social innovations are perceived and responded to by existing institutions and stakeholders will vary between different welfare regimes. For example, a more Liberal or mixed economy welfare regime (such as the United Kingdom or the Netherlands) provides relatively more opportunity and support for social innovations to deliver welfare services than a Corporatist system (e.g., Germany), and Social Democratic regimes in Scandinavia are even less receptive (Ruddat & Schönauer, 2014).

Pressures of self-preservation and institutionalization apply as much to social innovations and social enterprises as to conventional public sector organizations. Our focus group participants suggested that some social innovations and social enterprises reach a “tipping point” in scale where they must become more formally professional and routinized to sustain themselves, and are then criticized for neglecting their social mission. This charge of consolidation and the petrifying accretion of self-interest was also levelled at the sector infrastructure and support organizations by some of our participants:

We see a host of organisations that were set up to support particular subsectors, particular types of social enterprise...the danger becomes when these bodies and this infrastructure becomes self-perpetuated. They exist just because, and they develop a life of their own and empires are built and personalities become established. I think that's when there becomes a danger that the infrastructure becomes a barrier or becomes a competitor to the sector, or becomes a less healthy, or more invasive, form of support

This combination of resistance from existing public organizations and the growth of self-interest and self-preservation in the social enterprise and social innovation infrastructure can therefore produce inertia inhibiting creativity and innovation. The effect is that the

disruptive qualities of social innovations and social enterprises are resisted, neutralized or may be blunted over time. The process resembles the Weberian institutionalization of charisma, and how one of the supposed attractions of social enterprise and social innovation may be eroded by grating against bureaucratic authority (Weber, 1978).

This relates to the third theme to emerge from this research: the most appropriate way to conceptualize the development and infrastructure of social innovations and social enterprises. The favored analogy in much of the commentary on the infrastructure of social innovation is ecological, and refers to the evolution of a social innovation and enterprise “ecosystem” (Bloom & Dees, 2008). This ecological imagery portrays social innovations and social enterprises as random mutations fighting for survival within a natural system of competitors, or flourishing in symbiotic relationships (e.g., Hazenberg et al., 2016). The origin and development of social innovations and social enterprises are also often related to the substantial literature on technological innovation (Mulgan, 2007). The favoured contemporary epitomies of this are the internet and world wide web. These innovations are characterized by an “open” architecture: one that it is “versatile [and able to] reconfigure itself in response to changing circumstances”, where no particular interest (such as governments or corporations) can veto new developments. The internet and web therefore enable “permissionless innovation”, providing opportunities for new applications to be developed at relatively low cost and extended rapidly to global markets (Naughton, 2011, p. 24).

The evidence from the Scottish case study suggests that neither the ecosystem analogy, nor the comparison to the open innovation of the internet are accurate descriptions of the

institutional or policy contexts of social innovations and social enterprises. Social enterprises do not operate in open systems - their opportunities for innovation are circumscribed by conditions and contexts created by legislation, government policy, and existing public institutions. This limits their capacity to generate radical new departures. If social innovations and social enterprises are to be regarded as operating in an ecosystem at all then it is not a natural one, but rather more like an urban ecology, i.e., a complex built infrastructure which is at least partly planned and intentionally designed. No one entirely controls the urban environment, but neither is it purely organic: city authorities can permit or block developments; it is shaped by policy and vested interests, just as public agencies can enable social innovation to take root and grow or stifle such enterprise. Social enterprises and social innovations operate in human and therefore very political environments.

## **8 CONCLUSIONS**

This article set out to understand whether and how social innovations and enterprises relate to policy practice, thus contributing to the wider debate over how far they are likely to meet expectations in addressing the significant challenges currently faced by welfare systems.

Using Scotland as a critical case, it appears that the reluctance of local authorities to cede power, which they regard as weakening their political authority, inhibits the activities and likely impact of social innovation and enterprise in local welfare provision. Local authorities in Scotland certainly make use of social innovations and social enterprises to provide some welfare services, but they are not being replaced by them. The possibilities of partnership and co-production are limited by the self-interest and an instinct for self-preservation of key

institutions. Rather than having a transformative effect, social enterprises and innovation are in a sponsor-client relationship with public agencies, in which the dominant public sector party prevents them becoming competitors. In short, social innovations and social enterprises are more likely to adapt to, and be shaped by, than disrupt their institutional environments.

These findings have implications for understanding the likely role and effect of social enterprise and social innovation in welfare reform beyond the Scottish case. To have a more substantial impact, social enterprises and social innovations would require public services to be reconfigured, and for governments to implement more radical and fundamental shifts in provision. They seem incapable of generate such change themselves. There appear to be structural limitations to the inherent impact that social innovations have on societies with highly developed systems of social welfare, even in the country which boasts the “most supportive environment in the world”. As Moulaert et al. observed, “sustainable social innovation can only exist in a new form of statehood” (Moulaert et al., 2005, p. 1984). However, undertaking such reform would be a gamble, as there is currently insufficient evidence to be confident that innovative social enterprises are better suited to deliver social provision than more mundane established systems. If there is a “paradigm shift” in how public services are being delivered (Wallace, 2013, p. 2), it is not being led by social innovation and social enterprise, which still remains at a pre-paradigmatic stage of development (Chalmers, 2012, p. 20; Nicholls, 2010). Social policies may currently be in an interregnum, but we should be cautious about the capacity of social innovation and social enterprise to underpin any new regime.

## **ENDNOTE**

1. The project was entitled “Enabling the Flourishing and Evolution of Social Entrepreneurship for Innovative and Inclusive societies” (EFESEIIS).

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## **CONFLICT OF INTEREST**

None declared.

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